

Notes to General Purpose Financial Statements

Year Ended June 30, 2001

Note L. Contributed Capital

A summary of changes in contributed capital of the Proprietary Fund Types is as follows:

	Enterprise Funds			Internal Service Fund
	Sanitation Funds	Water Transmission Funds	Total	
Contributed capital, July 1, 2000	\$ 21,444,409	\$ 12,706,619	\$ 34,151,028	\$ 9,239,994
Additions:				
Connection fees	741,940	-	741,940	-
Reductions:				
Depreciation	(595,159)	(206,336)	(801,495)	(256,700)
Contributed capital transferred to retained earnings	(142,660)	-	(142,660)	-
Contributed capital, June 30, 2001	\$ 21,448,530	\$ 12,500,283	\$ 33,948,813	\$ 8,983,294

Note M. Fund Equity*Balances*

Fund equity consists of reserved and unreserved amounts. Reserved fund equity represents that portion of fund equity which may not be appropriated for expenditures or is legally segregated for a specific future use. The remaining portion is unreserved fund equity.

Portions of unreserved fund balance may be designated to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans or intent are subject to change, have not been legally authorized and may not result in expenditures.

Designated Fund Balance

General Fund

Contingencies

\$75,000

Notes to General Purpose Financial StatementsYear Ended June 30, 2001**Note N. Commitments and Contingencies***Contracts*

The Water Agency is committed under purchase orders and contracts as follows:

<u>Enterprise Funds</u>	<u>\$ 21,219,031</u>
<u>Internal Service Fund</u>	<u>\$ 403,069</u>

On January 1, 1995, the Water Agency assumed a contractual relationship, which had previously been held by the County, with certain sanitation districts. These districts are separate legal entities and their contractual relationship with the Water Agency is to provide collection, treatment and disposal of waste water.

The Water Agency is reimbursed for expenditures incurred in providing these services to the sanitation districts.

Other

The Water Agency is in process of constructing a collector well to be located adjacent to the Russian River at Wohler Road. The State of California Department of Water Resources is loaning approximately \$9,950,000 to assist in the financing of this project. As of June 30, 2001, the Water Agency had received loan funds in the amount of \$562,383. Repayment of this loan will commence upon completion of the project.

Risk Management

The Water Agency is covered by the County of Sonoma's self-insurance program, which is accounted for in the County's Risk Management Internal Service Fund. The Water Agency is covered under this program for general liability, auto liability, public employees performance/dishonesty and property insurance.

The County maintains a self-insured retention of \$750,000 per occurrence for general and automobile liability. Excess liability coverage is maintained through participation in the California State Association of Counties, Excess Insurance Authority ("CSAC-EIA"). Limits of this coverage are \$10,000,000. Additional coverage with limits of \$5,000,000 excess of the underlying \$10,000,000 is maintained through a joint-purchase excess liability coverage provided by Lexington Insurance, administered through CSAC-EIA for a total limit per occurrence of \$15,000,000.

The County also maintains public employee faithful performance/employee dishonesty coverage through a joint-purchase program provided by National Union Fire Insurance Company and administered by CSAC-EIA with limits of \$5,000,000 and a \$25,000 deductible.

Notes to General Purpose Financial Statements

Year Ended June 30, 2001

Note N. Commitments and Contingencies (continued)

Risk Management (continued)

The County maintains "All Risk" property insurance including flood and earthquake through participation in the CSAC-EIA property insurance program. Limits of coverage are \$200,000,000 per occurrence including flood and \$50,000,000 per occurrence for earthquake. Deductibles for most perils are \$50,000 per occurrence, with flood at \$200,000 per county per occurrence and earthquake at 5% of total insured values per unit, per occurrence, subject to a \$500,000 minimum per occurrence. For losses within the deductible, the County maintains a deductible self-insured pool for losses in excess of \$5,000.

The Water Agency pays annual premiums to the County for this insurance coverage.

Economic Dependence

Four major customers of the Water Agency had water purchases from the Water Agency amounting to \$16,779,908 for the year ended June 30, 2001. The accounts receivable from these customers totaled \$3,552,894 at June 30, 2001.

Pending Litigation and Claims

The Water Agency is directly and indirectly involved in various claims, legal actions and complaints relating principally to violations of the federal Clean Water Act, environmental clean-up costs, property damage and land use decisions. With regard to the current claims and litigation, the amount of ultimate liability, if any, to the Water Agency is not determinable at this time. Management believes that the ultimate resolution of these claims and litigation will not have any materially adverse effect upon the financial condition of the Water Agency.

Other Regulatory Matters

Proceedings before the Federal Energy Regulatory Commission ("FERC") could result in reductions in the amount of water diverted from the Eel River into the Russian River, thus reducing the Agency's source of supply. Legal counsel, representing the Agency at these proceedings, as well as management cannot estimate the likelihood of reduced flows or the effect such reduction would have on the Water Agency's water supplies and water-sale revenues.

Notes to General Purpose Financial Statements

Year Ended June 30, 2001

Note O. Equity Transfers
Residual Equity Transfers

On December 19, 2000, the Water Agency dissolved the Sears Point Sanitation Enterprise Fund. The Water Agency transferred ownership of assets to Speedway Motorsports, Inc. to maintain the wastewater facilities. The fund provided sanitation services to an area adjacent to Speedway Motorsports, Inc. at Sears Point. As of June 30, 2001, the Water Agency had a payable balance in the amount of \$20,679, which was paid to Speedway Motorsports, Inc. on July 18, 2001.

The assets were transferred as follows:

Cash	\$ 20,679
Fixed assets	119,714
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Residual equity transfer	\$ 140,393

During the fiscal year 2000-01, the Water Agency recorded residual equity transfers to the Occidental County Sanitation District and Forestville County Sanitation District in the amounts of \$96,500 (from General Fund) and \$435,022 (from Water Transmission Fund), respectively. These transfers were recorded as contributed capital in the receiving fund. The transfers increased the Districts' cash balance to adequate levels to meet current obligations.

Other Equity Transfers

The Water Agency also recorded an equity transfer from the Graton Sanitation Enterprise Fund in the amount of \$180,000. This transfer was received in the General Fund.

The Water Agency recorded an equity transfer to the Warm Springs Dam Special Revenue Fund in the amount of \$2,138,340. As of July 1, 2000, the Water Agency created the Warm Springs Dam Special Revenue Fund to account for funds received from tax revenues for maintenance activities and servicing related debt of the Warm Springs Dam. Prior to June 30, 2000, the Water Agency was accounting for these funds and activities in the General Fund.